

**CABINET
15 SEPTEMBER 2020**

INVESTMENT FUND UPDATE

**Responsible Cabinet Member - Councillor Charles Johnson,
Resources Portfolio**

Responsible Director - Paul Wildsmith, Managing Director

SUMMARY REPORT

Purpose of the Report

1. To update Cabinet on progress against the agreed investments being funded through the Investment Fund.

Summary

2. In November 2016 the Council established an investment fund to be used for innovative investment opportunities beyond the traditional Treasury Management Strategy in order to achieve greater returns given the low returns on investment.
3. The fund provision of £50m is being utilised as envisaged in the original reports to Council to include Joint Venture (JV) vehicles and economic regeneration initiatives. Returns on joint ventures are anticipated to be over £4m.
4. The COVID-19 pandemic has had an impact on a few of the schemes within the investment fund with timescales extended in a number of areas. The Joint Venture housing sites were closed down on the 25 March 2020, however the sales teams continued to operate virtually online through the period and new sales were taken during lockdown. All the sites are now up and running and adhering to social distancing and safety measures.
5. The fund is currently being used on eight schemes detailed in the report.

Recommendation

6. It is recommended that Cabinet :-
 - (a) Note the use of the Investment Fund and the returns achieved through the joint venture vehicles.
 - (b) Approve the change of Gross Profit margin acceptable for a development in the DBC/Esh joint venture as noted in **Appendix 1** (Part III).

Reasons

7. The recommendations are supported :-

- (a) To keep Cabinet informed of progress made on opportunities undertaken and investment returns.
- (b) To increase development opportunities and ultimately income for the Council.

Paul Wildsmith
Managing Director

Background Papers

Council report – 24 November 2016 – Investment opportunities

Council report – 29 November 2018 – Investment opportunities update and request to increase the fund.

Elizabeth Davison : Extension 5830

S17 Crime and Disorder	No impact as a result of this report
Health and Wellbeing	No impact as a result of this report
Carbon Impact	No impact as a result of this report
Diversity	No impact as a result of this report
Wards Affected	No impact as a result of this report
Groups Affected	No impact as a result of this report
Budget and Policy Framework	There is not impact on the budget or policy framework.
Key Decision	This is not a key decision
Urgent Decision	This is not an urgent decision
One Darlington: Perfectly Placed	No impact as a result of this report however the use of the fund is likely to enhance the Borough's economy.
Efficiency	The utilisation of the Investment Fund is likely to increase Council income.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

Background

8. In November 2016 Council agreed to the establishment of a Capital Investment Fund and following the successful implementation agreed to increase the fund to £50m on 29 November 2018.
9. It has been agreed the fund is recyclable so as the life of an investment comes to an end and repayment is made it will be recycled back into the investment fund for further utilisation. Any future scheme would of course still require a full detailed business case report to Cabinet.
10. Since the establishment of the fund, Cabinet have agreed to 10 uses of the fund, two of which have completed and the funding recycled, one having been repaid (Eastbourne JV) and one where the guarantee is no longer required (Darlington Sports Village £2.1m). The remaining eight are summarised below:-

Investment	£m's	Cabinet Agreement Date
Markets (MAMD Ltd)	1.80	20/06/2017
Neasham Road: Linked to Relocation of Cattle Mart	3.14	06/03/2018
Feethams House	2.63	06/03/2018
JV - West Park	12.00	03/04/2018
JV - Heighington	6.10	29/06/2018
JV - Heighington repaid to date	-1.70	
JV – Middleton St. George	4.70	08/01/2019
JV – Esh/DBC JV Limited	9.50	03/12/2019
Land acquisition - Faverdale	1.30	31/03/2020
Total	39.47	

Investment update

Market Asset Management

11. In 2017 the Council entered into a lease with Market Asset Management Ltd (MAM) for the management, refurbishment of the Victorian Indoor Market and the management and improvement of Darlington's outdoor market. As part of the lease MAM are obliged and committed to invest £1.5m (plus VAT) in repairs to the roof and structure of the building and improvements to the mechanical and electrical supplies, ventilation and heating system. A loan of £1.8m was made available to MAM to assist with the upfront expenditure and this is being repaid at state aid compliant rates which will benefit the Council to the tune of around £0.278m.
12. Since the last report in July 2019 there has been a re-design of the proposals to reflect the ambition of ensuring the market becomes a focal point within the town. The project features installation of a bio-mass heating system and the re-

development and re-purposing of approximately one third of the market hall to provide a street food scene, bar and events stage, an enhanced entrance and additional public toilets. MAM will produce and manage a full events diary and focus efforts on driving family-based evening economy to benefit the market and the wider town-centre and to dovetail with ongoing improvements to the outdoor markets and enhance events programme, which are all set to continue. Further phases include will involve a face-lift to the remaining shop floor of the market providing a more exciting place to shop and a mezzanine level business centre.

13. An important element of the overall re-development will be the installation of a temperate garden on the eastern facing elevation of the building, adjacent to the market square. This exciting development will include the construction of a new temperate garden and redevelopment of large sections of the market vaults into a bar and restaurant. This investment will act as a real catalyst in ensuring that Darlington town centre becomes a regional attractor for visitors across the Tees Valley, Durham and North Yorkshire.
14. Whilst the Scheme timescales have been impacted by COVID, it is now on track with the roof works starting and the tendering and procurement exercised for the main refurbishment, and alterations are in progress with the work due to commence in January 2021. A more detailed report on the scheme is on the Cabinet agenda.

Neasham Road: Linked to Relocation of Cattle Mart

15. In March 2018 Cabinet agreed to purchase the land at Neasham Road from the Darlington Farmers Auction Mart and others that would help to facilitate the move out of the town centre. It has been a priority for the Council for a number of years as it was recognised that the current location is unsuitable for a Mart operation, undesirable in the context of wider regeneration opportunities, impacts on the neighbourhood around Bank Top, and furthermore is constraining DFAM's growth opportunity. The acquisition of the land at Neasham Road not only assists with this priority but also subject to planning enables the Council to bring forward significant additional development of affordable and social housing to meet an identified need within the borough
16. £3.14m was allocated from the investment fund being the balance of funding required for the move. The funding will be repaid from future Section 106 receipts from affordable housing along with any capital receipts received from the site. This scheme has now received planning permission and a full report on the scheme is provided on the Cabinet Agenda.

Feethams House

17. The Feethams area has seen significant regeneration activity and change in the last five years, with one key gateway site remaining undeveloped. Darlington Town centre is poorly served with Grade A office accommodation and the establishment of Grade A office accommodation in the town centre has always been seen as the final piece in the Feethams Strategy. In March 2018, Cabinet agreed to allocate £2.63m from the investment fund, being the balance of funding on the Feethams House Office development, ERDF and TVCA monies make up the remaining cost. The Council funding represents borrowing and the borrowing costs will be repaid from rentals when the building is occupied.

18. The building has now been completed and office fit out is in progress for the first of the tenants, Deep Ocean who are anticipated to be in situ by September 2020. To date, two tenants have been secured and work is ongoing to attract further occupiers. The Coronavirus pandemic has impacted slightly on the timeframe, however there is positive interest from several parties which are being pursued.

West Park Joint Venture

19. The Council entered into a Joint Venture Company with our framework partners to build and sell houses at West Park and agree funding of £12m to facilitate this. The scheme is part of the larger West Park Village and will be completed over a seven-year period. The Council is anticipated to receive a pre-tax profit on the venture of £1.686m and further surplus on interest payments from the loan of over £0.7m.
20. As with all the Joint Venture housebuilding, the site closed down for a period during lockdown but is now up and fully operational with social distancing measures in place. The venture is still in its early stages however all the infrastructure has now been completed and at the time of writing 19 plots have already been reserved off plan.

Heighington Joint Venture

21. Cabinet approved £6.1m to establish and fund a joint venture company to acquire the site and bring forward a residential development of 43 homes in Heighington. The site is nearing completion with £1.7m of the loan having been repaid. It is anticipated this will be fully repaid by the financial year end. At the time of writing 17 properties have exchanged with a further eight reserved and the scheme is on track to deliver the pre-tax profit anticipated. There has been no change to programme despite COVID-19. The Council is due to receive a surplus on the loan interest of £0.190m and a pre-tax profit on the scheme of £0.677m.

Middleton St. George Joint Venture

22. In January 2019 Cabinet approved the establishment of a Joint Venture company to provide the infrastructure, build and sell 55 new homes private sale and affordable in Middleton St George. To date five plots have sold, 10 exchanged and a further seven reserved. The original forecast for completions this year has been reduced due to site closure and the inability to build all of the plots in the anticipated timescale. These plots have been moved back into 2021 when the whole scheme is anticipated to be completed. Whilst there is a cashflow impact of the delay the anticipated profit remains at the original level with a pre-tax profit of £0.594m and a surplus on the loan of £0.170m.

Esh DBC JV Limited.

23. Building upon the success of the Esh/DBC Joint Venture Housing Companies, Cabinet approved the establishment of a joint venture company in December 2019 to provide the infrastructure build and sale of homes under an investment programme within the North East under the company name Esh DBC JV Limited.
24. This company takes a longer-term view and is not site specific which enables funds to be reinvested over a longer term. All sites are subject to qualifying investment

criteria for residential development and it is envisaged the sites would be outside the boundaries of Darlington but within the North East region.

25. The company is based on a 50:50 split between the Council and Esh Homes Ltd with the company delivering profits equally the two parties. The estimated average pre-tax profit share for the Council per annum is £1m however cashflows will be recycled into new land and WIP until year four when the first dividend of £1m is anticipated.
26. The company is in its infancy however one site has just been purchased for the development of 75 houses in the Gateshead area.
27. As part of the governance of the JV in regard to suitability of sites and the investment criteria, a level of Gross Profit (GP) was agreed. Following review of Darlington other JV Companies, it is felt this level is too high in the prevailing market and is precluding the JV from a number of opportunities. The land market had tightened since COVID-19 and it would be prudent to react to these market changes now to ensure we have a wider choice of sites. A change in the level of GP at appraisal stage is proposed and noted in the Appendix 1 which is a Part III item.

Land Purchase – Land at Faverdale - St Modwens

28. An opportunity arose to purchase the 74 acres of land for employment use to the east of Faverdale East Business Park which Cabinet approved in March 2020. This is part of a long-term strategy for opening up land for development and the acquisition has now taken place.

Summary

29. The investment fund has been used for 10 schemes to date two of which have been recycled back into the fund.
30. The agreed Investment fund of £50m has a commitment against it of £39.47m leaving a balance of £10.53m uncommitted albeit there is a paper on the Cabinet agenda in regard to a Neasham Road JV which would call on this facility if agreed.
31. The investment fund is being utilised as envisaged facilitating wide economic benefits as well as a direct positive impact on the Councils financial position.